TACTICAL ASSET ALLOCATION COMMITTEE MONTHLY COMMENTARY

JANUARY 2018

FIERA CAPITAL

As 2017 came to a close, the global macroeconomic backdrop continued to impress, with investors thriving on the lucrative combination of synchronous global growth, robust corporate earnings, and a generally supportive central bank backdrop. Furthermore, after several months of deliberation, President Trump signed the Tax Cuts and Jobs Act in late-December, with the added stimulus expected to bolster the global economic and earnings backdrop in 2018. This reflationary impulse has fueled widespread gains across most major asset classes, including equities, bonds, foreign currencies, and commodities.

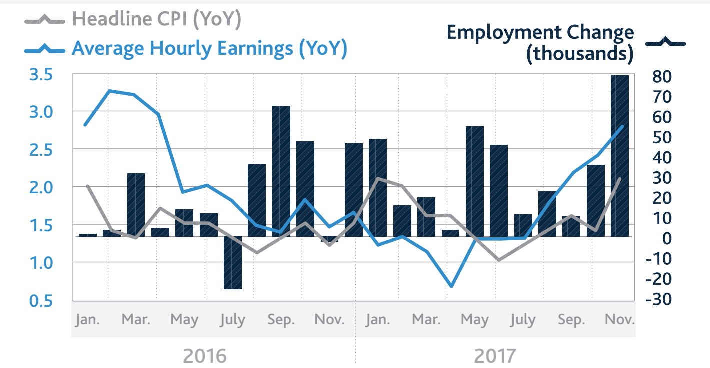
FINANCIAL MARKET DASHBOARD				
	DEC. 29, 2017	DEC.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,674	0.98%	19.42%	19.42%
S&P/TSX	16,209	0.88%	6.03%	6.03%
MSCI EAFE	2,051	1.52%	21.78%	21.78%
MSCI EM	1,158	3.36%	34.35%	34.35%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.41	-0.4	-3.9	-3.9
US 2 Year Bond Yield	1.88	10.1	69.5	69.5
CA 10 Year Bond Yield	2.05	15.6	32.4	32.4
CA 2 Year Bond Yield	1.69	25.7	94.2	94.2
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.80	2.59%	6.91%	6.91%
EUR/USD	1.20	0.85%	14.15%	14.15%
USD/JPY	112.69	0.13%	-3.65%	-3.65%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	60.42	5.26%	12.47%	12.47%
Copper (USD/pound)	3.30	8.68%	31.73%	31.73%
Gold (USD/oz)	1,309.30	2.84%	13.68%	13.68%

Global equity markets remained resilient and posted broad-based gains in December. The S&P 500 breached a number of new milestones throughout the year and posted its strongest annual gain since 2003, thanks to the robust economic backdrop, solid corporate earnings, and speculation for fiscal expansion. Meanwhile, the S&P/TSX also moved higher amid an impressive resurgence in crude prices in the back-half of the year, though lagged its global peers on an annual basis. Looking abroad, emerging market stocks once again led the performance charge in December and posted their best annual gain since 2009, as the weaker greenback enhanced the allure of risker assets in the developing world.

The US yield curve finished 2017 near its flattest levels in a decade. The relentless flattening has come on the heels of some stubbornly subdued inflationary pressures that have weighed on longer-maturity bond yields, while expectations for central bank policy normalization in 2018 has buoyed the front-end of the curve. Indeed, while several central banks upgraded their growth forecasts for 2018 and have reinforced the notion that ultra-stimulative monetary policies are no longer a necessity, they have left unchanged their inflation forecasts all at once. Meanwhile, the strengthening global economic backdrop has stoked demand for corporate bonds, with the spread on investment-grade debt falling to levels not seen since before the global financial crisis.

The US dollar retreated in December and posted its first annual loss since 2012 – even after the Federal Reserve raised rates for the third time in 2017 and as the Trump administration adopted tax reform. Instead, several major central banks have converged with the Fed in adopting a more constructive policy stance in response to above-trend growth, dimming the appeal of the greenback. Notably, the euro topped $1.20, while the loonie rallied on the back of stronger crude prices and as healthy economic and inflation results boosted wagers for Bank of Canada rate hikes in the new year.

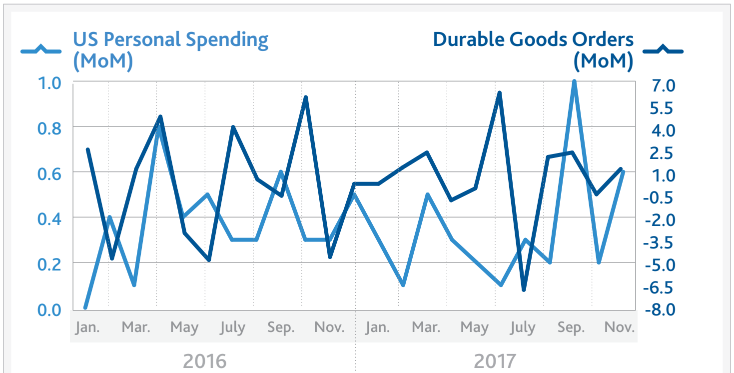
Finally, crude prices held above $60/barrel owing to stronger global demand and dwindling stockpiles, with the Energy Information Agency reporting that US stockpiles reached their lowest level in almost three years. Meanwhile, gold advanced as the sharp decline in the US dollar fueled demand for alternative assets, while copper prices rose to a four-year high as ongoing signs of global economic resilience augmented demand prospects for the red metal.



The Canadian economy has churned out close to 400k jobs in the last year, while unemployment has declined towards a decade-low. Taken together, this has bolstered both wages and inflationary pressures alike – challenging the Bank of Canada's dovish bias.

CANADA

The Canadian economy is set to lead the G7-charge in 2017. The consumer remains a dominant force, thanks to declining unemployment and accelerating wages. Meanwhile, exports have bounced back and should gain further traction on the back of stronger demand stateside – though lingering NAFTA uncertainties could restrain investment in the near term. Encouragingly, the remarkable growth backdrop finally appears to be fueling some pricing pressures, with both headline and core inflation reaccelerating late in the year. And while the Bank of Canada has indeed reiterated that less stimulus will be required over time, a cautious approach is likely warranted as the central bank monitors the economy's sensitivity to higher borrowing costs and more onerous mortgage lending rules, as well as the fate of NAFTA discussions.



Both consumers and businesses propelled the US economy higher at the end of 2017, owing mainly to the constructive backdrop at home and abroad - including a tighter labor market, robust global demand prospects, and the newly-approved tax overhaul from the Trump administration.

USA

The US economy is exhibiting some renewed signs of vigor, even before accounting for the stimulative effects of tax reform. On the consumer side, the combination of tighter labor markets, rising wages, and the newly-approved tax reduction are likely to bolster both confidence and spending in the new year. Meanwhile, businesses are finally ramping up investment, owing to stronger global demand, a weaker US dollar, and as lower corporate tax rates give businesses the wherewithal to boost capital spending. While the Federal Reserve has assumed a gradual and well-telegraphed approach to monetary normalization in response, the combination of above-trend growth, dwindling spare capacity, and new fiscal stimulus could see the Federal Reserve raise interest rates faster than what the market is expecting in 2018.

The global economy continues to exhibit some remarkable momentum heading into the new year. While the global manufacturing PMI has jumped to a 7-year high, economic results have largely surpassed expectations across the world – underpinning the reflationary trade as we enter 2018.

INTERNATIONAL

We are also witnessing some considerable economic momentum in overseas economies heading into the new year. The Eurozone economy has gained some significant ground and growth is hovering near 18-year highs, allowing the ECB to scale back its asset purchases beginning in January. And while Japan is undergoing some of the strongest growth trends in decades, still-subdued inflation suggests that significant tightening remains a distant prospect in the near term. Finally, the Chinese economy continues to defy expectations for a hard landing. Notably, the global reflationary impetus remains firmly intact, with the growth backdrop underpinned by robust global demand and a revival in commodity prices - allowing policymakers the flexibility to pursue much-needed reforms without stifling growth.

Our current scenarios are for a synchronized global expansion (60%), which is a continuation of the current environment that benefits equities, trade protectionism (20%), which would be negative for equities and positive for bonds, political instability (10%) that would introduce significant financial market volatility, and finally, stronger than expected growth & inflation (10%) which would be negative for bonds and positive for equities.

MAIN SCENARIO
SYNCHRONIZED GLOBAL EXPANSION

PROBABILITY 60%

The global economy continues to grind higher in a synchronous manner, with all major regions contributing to the advance. The US expansion lingers on, thanks to widespread improvements across both the consumer and manufacturing sectors of the economy, while stimulative fiscal policy also provides a boost. Meanwhile, the Canadian economy moderates towards a more sustainable, albeit above-trend pace – though the fate of NAFTA clouds the outlook. Finally, while policymakers in Europe and Japan ultimately prove successful in reflating growth, emerging market economies prosper in the environment of improving global demand, ample liquidity, and rising commodity prices. Taken together, the lucrative combination of synchronized global growth and a revival in commodity prices should bolster inflation expectations across the world, though not to levels that would threaten the status of the economic recovery. This reflationary backdrop bodes well for equities and commodities (ex-gold) at the expense of fixed income and the US dollar.

SCENARIO 2
TRADE PROTECTIONISM

PROBABILITY 20%

The biggest risk to our base case scenario is a rise in trade protectionism stemming from restrictive policies in the US. Specifically, renewed pressure to make good on his campaign promises ahead of the midterm elections could see President Trump's rhetoric on protectionism translate into action, particularly due to his ability to act unilaterally on the foreign policy front. The risk of a sudden breakdown of NAFTA negotiations or US-China relations remain front and center from a risk perspective. If anti-trade rhetoric in the US becomes a reality and results in tariffs being imposed on economies such as China, Canada, and Mexico, retaliatory measures could ignite a global trade war – which would all but derail the status of the global economic expansion and fuel a rout in financial markets alike.

SCENARIO 3
POLITICAL INSTABILITY

PROBABILITY 10%

Recent trends towards populism in Europe could bring about renewed political upheaval and a corresponding crisis in confidence – disrupting the global economy and financial markets alike. While anti-euro parties were unable to gain significant ground in 2017, the potential for a rise in euro skeptic movements prevails in Italy (where support for the euro remains low), while political angst in Spain (the Euro Area's fourth largest economy) looms after the Catalonian election indicated strong support for independence – all of which risks throwing the region into political disarray at the same inopportune time when a lack of progress in Brexit negotiations has raised the odds of a "hard Brexit" scenario. And in China, with the twice-a-decade National Party Congress now behind us, we will be watchful on how aggressively President Xi pursues economic reforms and at what expense to the growth outlook. After consolidating his power, an increasingly assertive and wide spread stance towards financial sector reforms to crack down on excesses could pose considerable risks to both economic growth and financial stability.

SCENARIO 4
STRONGER GROWTH & INFLATION

PROBABILITY 10%

Inflation expectations de-anchor from current subdued levels and surge higher on the back of the stronger-than-expected global growth backdrop. Specifically, the global expansion has become increasingly self-sustaining and excess capacity has been absorbed, with all major OECD economies operating at/near full potential. When combined with central bank's tolerance for higher inflation and the overly-stimulative monetary policy backdrop in general, the global economy could potentially overheat and trigger a faster tightening schedule as central bank doves morph into hawks - increasing the risk of a policy error, shortening the cycle, and stifling the economic recovery. With asset valuations at extreme levels, this leaves little room for error from a financial market perspective.

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FORECASTS FOR THE NEXT 12 MONTHS

SCENARIOS	DECEMBER 29, 2017	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	POLITICAL INSTABILITY	STRONGER GROWTH & INFLATION
PROBABILITY		60%	20%	10%	10%
GDP GROWTH (Y/Y)					
Global	3.50%	3.75%	2.00%	3.00%	4.25%
Canada	3.40%	2.75%	0.50%	1.00%	3.25%
U.S.	2.30%	3.25%	1.00%	1.00%	4.00%
INFLATION (HEADLINE Y/Y)					
Canada	2.10%	2.25%	1.50%	1.50%	3.00%
U.S.	2.20%	2.25%	2.00%	1.75%	3.25%
SHORT-TERM RATES					
Bank of Canada	1.00%	1.75%	0.50%	1.00%	2.25%
Federal Reserve	1.50%	2.25%	1.50%	1.50%	3.00%
10-YEAR RATES					
Canada Government	2.05%	2.85%	1.40%	1.70%	3.80%
US Government	2.41%	3.25%	2.00%	1.60%	4.25%
PROFIT GROWTH (12 MONTHS FORWARD)					
Canada	14.1%	18.9%	-18.8%	-7.2%	24.7%
U.S.	11.4%	18.0%	-8.6%	2.8%	29.4%
EAFE	17.9%	17.0%	-13.3%	-9.0%	30.0%
EM	26.6%	30.4%	-10.8%	-10.8%	44.1%
P/E (FORWARD 12 MONTHS)					
Canada	16.5X	16.5X	16.5X	16.5X	16.0X
U.S.	18.3X	18.0X	16.5X	17.0X	18.0X
EAFE	15.1X	15.5X	15.0X	14.5X	15.0X
EM	12.6X	13.5X	11.0X	12.5X	12.5X
CURRENCIES					
CAD/USD	0.80	0.82	0.65	0.70	0.85
EUR/USD	1.20	1.25	1.10	1.00	1.10
USD/JPY	112.69	115.00	100.00	100.00	120.00
COMMODITIES					
Oil (WTI, USD/barrel)	60.42	65.00	40.00	45.00	75.00

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MATRIX OF EXPECTED RETURNS

SCENARIOS	SYNCHRONIZED GLOBAL EXPANSION	TRADE PROTECTIONISM	POLITICAL INSTABILITY	STRONGER GROWTH & INFLATION
PROBABILITY	60%	20%	10%	10%
Money Market	1.4%	0.8%	1.0%	1.6%
Canadian Bonds	-2.9%	7.2%	5.5%	-9.4%
Canadian Equity	4.3%	-28.7%	-18.6%	6.1%
U.S. Equity	1.2%	-9.4%	-2.5%	7.1%
International Equity	-1.0%	-10.5%	-15.6%	2.7%
Emerging Market Equity	7.4%	-24.5%	-20.3%	6.0%

CURRENT STRATEGY[1]

	MINIMUM	BENCHMARK	MAXIMUM	STRATEGY	ALLOCATION	RELATIVE	DEC. 6 CHANGES
Money Market	0.0%	5.0%	25.0%	Overweight	20.0%	+15.0%	Increased by 10.0 %
Canadian Bonds	20.0%	40.0%	60.0%	Underweight	25.0%	-15.0%	No change
Canadian Equity	20.0%	25.0%	45.0%	Overweight	30.0%	+5.0%	Decreased by 2.5%
U.S. Equity	3.0%	13.0%	23.0%	Underweight	8.0%	-5.0%	Decreased by 5.0%
International Equity	2.0%	12.0%	22.0%	Underweight	7.0%	-5.0%	No change
Emerging Markets Equity	0.0%	5.0%	15.0%	Overweight	10.0%	+5.0%	Decreased by 2.5%

[1] Based on a 100 basis point value added objective. The benchmark employed here is based on a model portfolio and for illustrative purposes only. Individual client benchmarks are employed in the management of their respective portfolios.

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EVOLUTION OF STRATEGY [1]

	MONEY MARKET	CANADIAN BONDS	CANADIAN EQUITY	U.S. EQUITY	INTERNATIONAL EQUITY	EMERGING MARKETS EQUITY
August 10, 2011	+5.0%	-15.0%	+5.0%	+5.0%	0.0%	0.0%
October 5, 2011	+7.0%	-15.0%	+8.0%	0.0%	0.0%	0.0%
October 12, 2011	+6.0%	-10.0%	+4.0%	0.0%	0.0%	0.0%
November 11, 2011	+5.0%	0.0%	0.0%	0.0%	-5.0%	0.0%
December 7, 2011	0.0%	0.0%	+5.0%	0.0%	-5.0%	0.0%
April 20, 2012	+15.0%	-20.0%	+10.0%	0.0%	-5.0%	0.0%
July 31, 2012	+20.0%	-15.0%	0.0%	0.0%	-5.0%	0.0%
November 9, 2012	+10.0%	-15.0%	+10.0%	0.0%	-5.0%	0.0%
February 19, 2013	+5.0%	-15.0%	+10.0%	0.0%	0.0%	0.0%
August 6, 2013	0.0%	-15.0%	+10.0%	+5.0%	0.0%	0.0%
December 3, 2013	+10.0%	-15.0%	+5.0%	0.0%	0.0%	0.0%
February 5, 2014	0.0%	-15.0%	+10.0%	+10.0%	-5.0%	0.0%
October 14, 2014	0.0%	-20.0%	+5.0%	+10.0%	+5.0%	0.0%
November 14, 2014	+10.0%	-20.0%	+2.5%	+2.5%	+5.0%	0.0%
July 13, 2015	0.0%	-20.0%	+7.0%	+4.0%	+9.0%	0.0%
October 19, 2015	0.0%	-20.0%	+11.0%	+0.0%	+9.0%	0.0%
June 24, 2016	+9.0%	-20.0%	+11.0%	+0.0%	+0.0%	0.0%
July 12, 2016	0.0%	-20.0%	+15.0%	+0.0%	+0.0%	+5.0%
July 27, 2016	+5.0%	-20.0%	+12.5%	+0.0%	+0.0%	+2.5%
October 31, 2016	0.0%	-20.0%	+12.5%	0.0%	0.0%	+7.5%
April 5, 2017	+5.0%	-15.0%	+7.5%	0.0%	-5.0%	+7.5%
December 6, 2017	+15.0%	-15.0%	+5.0%	-5.0%	-5.0%	+5.0%

[1] Based on a 100 basis point value added objective.

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